



# **AG-AMERICA COMMERCIAL FARM AND RANCH LOAN APPROVAL GUIDE**

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# CHAPTER 301 LOAN APPROVAL OVERVIEW

## **301.1 Preliminary Loan Approval**

- The loan file may be submitted for optional Preliminary Loan Approval as described in Chapter [302.2](#), either with or without an appraisal.

## **Credit Standards**

- Qualified Loans are expected to be underwritten in accordance with the standards and guides set forth in Chapter 2. Under certain circumstances, the lender may, in its sole discretion, reject loans that may otherwise comply with these underwriting standards. Reasons for rejections may include, but are not limited to, unsupported performance forecasts, key management changes, impending legal action, unresolved estate matters, or other matters that may, in the Lender's judgment, affect the future performance of the loan.
- The Originator is encouraged to contact the lender prior to submission of a loan if these types of conditions are known to exist.

## **302.2 Preliminary Loan Approval**

- If Preliminary Loan Approval is requested, an incomplete file will not be accepted. The loan file contents must include the minimum documents listed below:
  1. **Loan Application** listing all applicants;
  2. A **schedule of proposed principal and interest payments**;
  3. A **request for maximum mortgage interest rate** for which qualification and approval is sought;
  4. An **indication of the appraised value** of the loan security and its **net property income**;
  5. A **verification of employment** (when applicable);
  6. A **credit report** or **verification of credit relationships**;
  7. Appropriate **financial statements** (balance sheets and income statements) prepared according to the requirements detailed in Chapter 2 of the Guide;
  8. **Income tax returns** corresponding to the income statements submitted;
  9. **Pro forma market value balance sheet** and **income statements with adjustments** detailed for new financing;
  10. A **narrative detailing the five "C's"** of credit (see Chapter 201 and [Exhibit A in Chapter 202](#)). Particular attention needs to be paid to trends in the business and marketing programs;
  11. Other information relevant to the applicant that will help in the analysis of the loan request;
  12. Copies of all **material contracts and all leases** that affect the security offered for the loan;
    - The Originator, at its option, may omit the following information from the loan information sent for Preliminary Loan Approval. Doing so will however, result in granting a conditional approval. In that case, the following items must be received prior to or at the time the Final Loan Approval is requested, in order to clear the conditions and approve the loan for closing:
  13. A current **Environmental Disclosure form**, signed by the Applicant(s) and the appraiser;
  14. **Evidence of hazard insurance** (not required on transactions secured by land only). If applicable, hazard insurance on buildings, improvements and irrigation equipment identified by the appraiser as adding value to the property in amount equal to at least the contributory value assigned;
  15. Evidence of the ability to perfect an appropriate security interest in **water rights and entitlements** (when applicable);
  16. Evidence of the ability to perfect an appropriate security interest in **grazing rights entitlements** (when applicable);
  17. A **description of the fixtures and personal property** needed to operate the Mortgage Property upon which Ag-America will file appropriate UCC Financing Statements and conduct appropriate searches on or before loan closing;
  18. A **preliminary title report** issued by a title insurance company with a Demotech rating of "A" or better. If title insurance is not available in the area where the Mortgaged Property is located, an opinion of counsel provided by an attorney or firm of attorneys rated at least "BV" by Martindale-Hubbell, acceptable to Ag-America. For properties located in the state of Iowa, Ag-America will accept Iowa Title Guaranty Commitments, Certificates and Endorsements in lieu of title insurance or attorney opinion of title. The original, complete (faxes and scans are not acceptable) preliminary title report must be provided to Ag-America;

19. An **appraisal report** and all applicable Farmer Mac forms and supplements required by Chapters [CV101.4](#), [CV 101.5](#) and/or [CV101.6](#) (as appropriate for the type of property involved). The Lenders acceptance of completed appraisal report in accordance with Chapter [CV101.6](#).
20. A UCC Lien Search on all applicants.

### **302.3 Approval based Compensating Strengths**

- Ag-America may accept a loan with exceptions to underwriting standards if the loan demonstrates compensating strength on one or more of the underwriting standards to which it does conform to a degree that compensates for noncompliance with one or more other standards. Ag-America expects Originators to identify loans submitted for approval based on compensating strengths and to provide support in the analysis as to why approval is warranted under the conditions identified, together with such terms and conditions as necessary to result in a sound loan structure. Originators are encouraged to discuss with Ag-America, prior to submission, loans that may require approval based on compensating strengths.

### **302.4 Review of Appraisal**

- The Originator is responsible for ensuring that an appraisal of the Mortgage Property is conducted in accordance with the Collateral Valuation Standards and Guides, set forth in the Collateral Valuation Supplement to the Guide, is provided with the request for Final Loan Approval. For Preliminary Loan Approval, the Originator may estimate the value of the Mortgaged Property and Net Property Income.

### **Compliance Summary**

- The file will contain evidence of acceptance of the appraisal report in the loan file, as per [CV101.6](#).

### **302.5 Final Loan Approval**

- Final Loan Approval will be based on the following:
  - 1) Whether such file is complete and/or consistent with the Preliminary Loan Approval and file, if applicable.
  - 2) Review and approval of the appraisal and other documents not previously approved as part of the Preliminary Loan Approval.
  - 3) Copies of **long-term leases**, if applicable. All long-term leases involving Ag-America collateral will need to be assigned accordingly. If a review of the leases indicates the lessor cannot cancel the lease, a subordination agreement will be required.
  - 4) All **underground storage tanks** less than 1,100 gallons in size must be removed. If an underground tank is larger than 1,100 gallons in size, the regulations require routine testing. In these cases, the most recent EPA certificate is to be provided.
  - 5) **UCC filings** and liens on all irrigation equipment and wind machines.
  - 6) Any required filings for Ag-America to retain all water rights. Lien on and physical possession of the water stock certificates, if applicable.
  - 7) UCC search as required under Article 9 of the UCC.
  - 8) Monthly **dairy assignment**, if applicable, equal to or greater than the required monthly principal and interest payment.
  - 9) A **livestock facility** must meet all local, state and federal zoning and environmental laws and requirements. If secured acreage is not sufficient to deal with waste effluent, a manure easement will be required on additional acreage. Ag-America requires that the manure easement be a priority over other liens.
  - 10) Bureau of Land Management **grazing permits**, certificates, and assignments along with assignment of any related state and federal grazing permits and required filings for the mortgage holder to retain all grazing rights.
  - 11) If an **entity is signing any loan documents**, the applicable documentation is required:
    - **Trust**: signed Trust Agreement
    - **Partnership**: signed Partnership Agreement
    - **LLC**: signed Articles of Organization, a Certificate of Good Standing and a copy of the signed Operating Agreement and any amendments thereto
    - **Corporation**: Certificate of Good Standing from the state of incorporation dated within 90 days of closing, signed corporate authority resolution/certificate, personal signatures or full guarantees of major stockholders and the signed Articles of Incorporation and Bylaws.

### **Final Loan File Contents**

- The Final Loan File must contain the documents listed on the Final Loan Approval in addition to the items listed below.
  - 1) Documents corresponding to Items 13 through 17 of Preliminary Loan File Contents ([Chapter 302.2](#)), if not included in the loan package submitted for Preliminary Loan Approval.
  - 2) An appraisal with an appraisal update, if applicable.
  - 3) If applicable, a copy of any security documents, including UCC Financing Statements and a UCC Search showing a First Lien position on all fixtures given value in the appraisal.
  - 4) Evidence of title to the Mortgaged Property in the form of a title insurance policy or a binding title insurance commitment issued by a title insurance company acceptably rated at least "A" by Demotech\*. If Title Insurance will not be available, an opinion of title from an attorney or firm of attorneys rated at least "BV" by Martindale-Hubbell. 3<sup>rd</sup> party investor approval required prior to closing if the loan is submitted without title insurance. If the loan involves a Revolving Line of Credit product, the title insurance policy must include a clause insuring future advances and adjustable interest rates.  
\*Beginning January 1, 2008, the ALTA 2006 title policy must be used.